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Clearing House Enumerates e-Payment Ills

BY PRIYA MALHOTRA

A study of why electronic business-to-business payments have not taken off the way people had thought or hoped blames software vendors' unsophisticated cash management programs and a hesitance among cash management customers to change or to trust the security involved.

The New York Clearing House, which is owned by 11 large banks, conducted the research, surveying 155 companies with revenues topping \$10 million. The survey work was done between October and March, and follow-up included focus groups.

The clearing house concluded that five major obstacles were stifling b-to-b e-payments: executives' perception of loss of check float; the fear that e-payments would lack remittance information and other vital data; businesses' aversion to being debited by other companies; executives' reluctance to give out their account numbers; and the lack of functionality and integration in cash management and accounting systems.

Consumer-to-business e-payment has grown steadily, but things have been much slower on the b-to-b side despite persistent high expectations.

The study "really drove home the point that there hasn't been much progress in the last two years," George Thomas, a senior vice president at the New York Clearing House, said in a telephone interview. When it comes to e-payments, "everybody likes to get them, but not everybody likes to make them."

The findings also underscore the enduring popularity of paper checks. Citing figures from the Federal Reserve Board, the clearing house said that paper checks still represent 84% of U.S. corporate payments.

Diane Reyes, the North America region head for Citigroup Inc.'s e-business group, said that the survey results sounded right to her.

"Security is foremost in our customers' minds," she said.

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The New York Clearing House has created a Universal Payment Identification Code, a unique number assigned to a company's bank account that masks confidential banking information while facilitating electronic payments. A company can give out the UPIC without disclosing the account number, and the code will remain the same even if the company changes banks.

The UPIC project was completed in February. The system is now available to all financial institutions that belong to the Electronic Payments Network, a subsidiary of the New York Clearing House.

Citi has started using UPICs with two customers but has not been using them long enough to tell how effective they have been, Ms. Reyes said.

The New York Clearing House found that most cash management systems did not have electronic payment capabilities, and, if they did, they lacked the advanced integration capabilities required. This was the biggest hurdle, said Mr. Thomas, who predicted there will be no real progress until the accounting systems change.

Mr. Thomas said one of his organization's goals is to work with accounting software vendors so that their systems will offer comprehensive e-payment functionalities.

Another problem with the accounts-payable packages on the market is that they cannot attach adequate information to the electronic payment.

"Within the payments industry," the study said, "there is a general consensus that businesses would like to receive remittance information electronically in the same stream as the payment. Having two streams requires a re-association process, causes confusion, increases the risk of loss, and is more time-consuming."

The survey found that 65% of companies were "likely" or "certain" to adopt a service that integrated the remittance information with the payment.

Even when companies are capable of receiving and reconciling electronic payments and information, they rarely have sufficient quality electronic data to automate their ledger reconciliation. According to the survey, only about one-seventh of all payment remittances are electronic and include enough information for automated reconciliation.

Also, the survey found that, though companies liked using direct debits for collections, they did not like to be debited by other companies. They "want to control the entire payment process," Mr. Thomas said. "Otherwise they feel they might lose control."

Another barrier to the electronic payments was the perceived loss of check float, since ACH transactions settle within one or two days, the survey found. Companies that have converted to electronic payments from checks usually have been given incentives, such as a deal from the bank for a 1% to 2% discount for paying on time.

The study said there has to be a lot more promotion of ACH's benefits. Mr. Thomas said that banks and others have to do this and to make electronic payment "as easy as writing a check."

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He said a gradual migration to electronic payments is inevitable and that the survey participants felt the same. "People in focus groups would say, 'We know it's coming,' " Mr. Thomas said.

Bill Nelson, an executive vice president at Nacha, the electronic payments association, said that business-to-business ACH payments have risen in the last few years, representing 18% of b-to-b transactions in 2001 versus 16% in 1999.

The fear of unauthorized debits is "real," Mr. Nelson said. "UPICs are really needed, and it would really help b-to-b payments to have that."

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photo, Thomas, Reyes

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